A REFLECTION ON THAILAND-AUSTRALIA FREE TRADE AGREEMENT (TAFTA): A VIEW FROM THAILAND *

By Medhi Krongkaew **

1. The Beginning and Rationale

It has been more than a year since Thailand and Australia signed an agreement establishing a bilateral free trade relation between themselves. When this Thailand-Australia Free Trade Agreement (TAFTA) was signed in Canberra in early July 2004 by the Trade Ministers of the two countries, witnessed by the Thai and Australian Prime Ministers, it had created something of a fanfare in both countries because, for Thailand, it was the first FTA that Thailand had signed with an advanced industrial country, and for Australia, it was the first FTA that Australia had signed with a major developing country in East Asia. But more than this public relations spectacle, TAFTA is also favourably regarded as a commendable FTA for its comprehensiveness and the large amount of goodwill that has been injected into it to make it possible quickly for the expected benefits from both sides.

At least on the Thai side, the initiative to enter into an FTA with Australia can be looked upon as a part of a larger international trade strategies of Thailand, especially under the new government of Dr. Thaksin Shinawatra who came into power for the first time in early 2001. While it is true that FTA was not specifically mentioned in the overall policy of Thaksin's government in early 2001, once the positions of the US and Japan had changed on this (to support bilateral FTAs along side their traditional support of multilateral trade negotiations a la WTO), Dr. Thaksin had seized on the opportunity to move ahead of many of his fellow regional leaders. There are many reasons for these new strategies of Dr. Thaksin, but it suffices to say that he had combined the need for the Thai economy to be efficient in an increasingly competitive, globalised world anyway, with an opportunity to expand Thai markets quickly through an early bilateral FTA. And to do this quickly, he is willing to be pragmatic and would go for long-term gains and rely basically on mutual goodwill of trading partners than getting bogged down in lengthy and tenacious trade negotiations. It can be said that this Thailand-Australia FTA fits well with the positions of Dr. Thaksin above. [1]

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[1] For more details on the rationale of Thailand's bilateral FTA strategies see Medhi (2001), and (2004).

It appears that trade ministers of Thailand and Australia had met during the Doha Round of WTO Ministerial Meeting in Doha, Qatar in November 2001 to agree on the joint scoping study on the feasibility and desirability of a Thailand-Australia FTA. When the answers from this joint study were positive, negotiations between the two countries started in May 2002. Overall general agreement was reached in October 2003, and preparation was being made for the signing of this Thailand-Australia FTA tentatively set in May 2004. Eventually, Dr. Thaksin brought his Trade Minister (and many other cabinet members) with him to Canberra on 4 July 2004, and the next day, 5 July 2004, the agreement was signed at the Australian Parliament House. The actual FTA activities came into effect on 1 January 2005.

2. The Course and Outcomes

While Dr. Thaksin could have agreed on the establishment of TAFTA based simply on his business instinct and experience, he had made certain that a more rigorous study on the pros and cons of TAFTA be carried out before the conclusion of the deal. A team of researchers from the Faculty of Economics at Chulalongkorn University was contracted to conduct such a study. The results of the study are generally supportive of the establishment of such FTA. However, the study report mentions that these joint or mutual benefits are unlikely to be large because the existing trade between the two countries was not large, and the average tariff rates of both countries were not high to begin with. But it is expected that the long-term effect of such an FTA would be an increase in the volume of trade between the two countries. In terms of the increase in GDP as a result of this FTA, the Thai GDP is expected to increase by 0.034 percentage point, with the increase in the absolute amount of social welfare totaling 33.9 million US dollars in Thailand. As for Australia, the increase in GDP is estimated at 0.003 percentage point, and the absolute amount of social welfare totaling 123.3 million US dollars. As for specific items, Thailand is expected to benefit from the increase in the exports of textile products and passenger cars and parts, but, in return, will face larger imports from Australia on beef and other animal and agricultural products, and minerals. [2]

Admittedly, the largest and probably the most important aspect of TAFTA in the current situation is freer trade in goods between Thailand and Australia. From Thailand, there was an offer of zero tariff rates on about 49 per cent of the total trading items most of which are raw materials that Thailand is not able to produce locally. For the remaining 51 per cent of the trading items including such sensitive items as fruits and vegetables, plastics, papers, irons and

[2] For a more detailed summary of the outcomes of the study by the Chulalongkorn University Study Team, see Annex 1 at the end of this paper.

steels, Thailand will continuously reduce their tariff rates to zero by the year 2010. The most sensitive trading items are milk and milk products which will not be fully liberalised until 25 years later. As for Australia, its offer of zero tariff rates includes about 83 per cent of trading items, with the remaining items zero-rated by 2010 or 2015. Among the most sensitive trading items are apparels and footwear, leather products, plastics, automobile parts, but all will be zero-rated by 2010.

But as mentioned earlier, a unique characteristic of TAFTA is its comprehensiveness that go beyond trade in goods. In fact, as the following list of coverage will attest, TAFTA covers all the aspects of modern trade and economic cooperation. The following items are covered under 1909 articles of the agreement:

- Trade in Goods
- Customs Procedures
- Rules of Origin
- Safeguards
- Sanitary and Phytosanitary Measures and Food Standards
- Industrial Technical Barriers to Trade
- Trade in Services
- Investment
- Movement of Natural Persons
- Electronic Commerce
- Competition Policy
- Intellectual Property
- Transparent Administration of Laws and Regulations
- Government Procurement
- General Exceptions
- Institutional Provisions
- Consultations and Dispute Settlement

Of course, not all aspects of the above activities receive the same level of attention and emphasis. For example, the movement of natural persons still limits to jobs in selected economic subsectors, and other barrier to entry conditions in each respective country still apply. More on this later in the next section.

Since 1 January 2005 when TAFTA came into effect, the Thai government (through the Department of International Trade Negotiations, Ministry of Commerce) has been keeping an eye on the outcomes of almost one year of TAFTA. Tables 1 to 5 show some results of the changes in trade in goods between Thailand and Australia between January to October 2005. [3]

[3] The statistical information contained in these five tables was obtained from a Powerpoint presentation of Ms. Chutima Bunyaprapassorn, Senior Advisor to the Department of International Trade Negotiations at the Seminar on “Evaluating One Year of TAFTA: Who Gains, Who Loses?” organised by the Department of

The general foreign trade patterns between Thailand and Australia is shown in Table 1. In this table, it may be seen that in the year 2000, five years before TAFTA, the total trade value between Thailand and Australia amounted to only 381.2 million US dollars, but the value of total trade started to jump from 2001 onward. During the 10 months of 2005 (January to October), the value of total trade of 5,457.1 million US dollars is even larger than the total trade value of 2004 of 4,666.3 million US dollars. In terms of the growth rate of this total trade value, the change in the last 10 months of 2005 was very high at 45.54 per cent. It is very obvious that TAFTA has been instrumental in bringing about a very rapid increase in trade in goods between the two countries. However, since the share of Thai-Australian trade is still very small as a percentage of the total trade of both countries, the prospects for even higher trade between the two countries are even higher.

Table 2 shows the ten largest export items to each other. For exports of Thailand to Australia in 2004, the largest items are motor vehicles, components and parts, with the total value of exports of about 752 million US dollars, and with the share of about 30.47 per cent. The second largest items are air conditioners and components but at the share of only 9.35 per cent. The remainders of the list consist of canned and processed seafood, gems and jewellery, plastics, and so on. The imports of Thailand from Australia in 2004 was slightly larger than its exports, with the two largest items as minerals and other metals (24.41 per cent), and silver and gold (22.75 per cent)

Table 3 further expands the change in the trade of ten largest goods items between Thailand and Australia during the 10 months between January to October in 2004 and 2005. It is possible to interpret this change as resulting from a natural increase in the trade between the two countries, but of course the specific contributions of TAFTA cannot be ruled out. It is true that during these 10 months, the balance of trade between Thailand and Australia is in favour of Australia, but on closer investigation, the Thai trade deficit came as a result of the exports of two main items from Australia: gold and crude oil. What is more important is the fact that the rate of growth of total trade between the two countries has been very high during January to October this year (2005) compared with the similar period last year (2004). In short, the outcomes of increased trade between Thailand and Australia during the first 10 months of this year have seen more positive growth than negative growth.

Tables 4 and 5 give some details of the change in trading volume and value between Thailand and Australia. It was pointed out earlier that Australia has enjoyed a small trade surplus over Thailand during the first 10 months of TAFTA but this trade surplus should not be

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International Trade Negotiations in Bangkok, 30 November 2005.

regarded as significant because it involved two large import items (gold and crude oil) from Australia during the time of energy instability. More important is the overall increase in the value of exports of each country to each other compared to the situation before TAFTA. The ways in which each country has handled its tariff reduction and protection of sensitive products are also more important. It is quite obvious that both countries have been very mindful of the domestic situations concerning trade in certain items and tried to accommodate each other's positions in a spirit of good will and cooperation. For example, Australia allows Thailand up to 20 years to completely liberalise its milk trade, whereas Thailand allows unrestrained imports of gold, oil and other minerals from Australia.

3. Problems and Prospects

While the prospects of trade in goods are bright for both Thailand and Australia under TAFTA, they are not without problems. It is well known that Australia is very fastidious about the sanitary and phytosanitary measures against most imports of food and agricultural products into Australia, and these measures have affected Thai exports to Australia in the past. Under TAFTA, these measures have been relaxed somewhat to facilitate larger imports from Thailand. [4] Thailand is also apprehensive on the prospects of the use of anti-dumping measures from Australia.

Perhaps a more difficult aspect of trade liberalisation between the two countries is in the area of trade in services and investment. On the whole, both countries have agreed to be as comprehensive as possible on their coverage of market access on all trade in services and investment issues. Both sides have agreed to open negotiations and phase in ready service sectors every 3 years, with full protective measures against injuries on investment on both sides. At the moment, Thailand is still not ready to open up its 39 occupations reserved for Thai nationals, and still carefully enforces its alien occupations law. But this should not affect the interest of Australia too much as the current regulations regarding high level business and managerial positions are sufficiently liberal. Australia also allows Thai nationals to work in all areas in Australia except in news media and broadcasting, international air transport, and airport management, which are not the areas that Thailand has indigenous expertise anyway. There are many areas in trade in services and other trading issues (mutual recognitions, standards and conformance) that await further deliberations and negotiations between the two sides (in education, health, tourism, and so on). The prospects for the success on these are good as long as both sides continue to work together in the spirit of genuine cooperation and good will.

[4] Although it is doubtful whether Thailand can benefit a great deal from this category of exports into Australia, as Australia has ample supply of fruits and other agricultural products domestically.

4. Summary and Concluding Remark

In this short paper, I have tried to describe the origin and development of bilateral trade liberalisation initiatives between Thailand and Australia which eventually resulted in the establishment of Thailand-Australia Free Trade Agreement (TAFTA) in 2004. Against the backdrop of the pros and cons of bilateral FTA and multilateral trading arrangements in the WTO fashion, it must be said that TAFTA succeeds quite well in achieving what it has intended to do. First, both countries aim at more long-term benefits of larger or increased trade than short-term gains through trade surplus or deficit. Second, TAFTA is comprehensive covering practically all aspects of trade in goods, trade in services, investment and other trade facilitation issues. Third, the potentials for future opening up are large and meaningful which can contribute to even larger social welfare gains to the people of the two countries.

Despite the relatively smaller base of previous trading relations between Thailand and Australia prior to the establishment of the current TAFTA, the development of trading relations between the two countries has been exemplary. Most Thai people have regarded Australians as fair-minded and sincere, and increasingly look upon Australia as a place or destination for further overseas studies. The current FTA could bring about even closer people-to-people contacts, in addition to increased trade that will naturally ensue from this current agreement.

Table 1: Thai-Australian Trade

Category	Value (in USD million)						Growth rate (%)				
	2000	2001	2002	2003	2004	2005 (Jan.-Oct.)	2001	2002	2003	2004	2005 (Jan.-Oct.)
Value of trade	381.2	2,708.0	3,135.6	3,728.0	4,666.3	5,457.1	-3.30	15.79	18.89	25.17	45.54
Exports	184.6	1,361.7	1,641.7	2,160.0	2,468.1	2,638.0	-16.77	20.56	31.57	14.26	29.32
Imports	196.6	1,346.3	1,493.8	1,568.0	2,198.1	2,819.1	15.62	10.96	4.97	40.19	64.89
Trade balance	-12.0	15.4	147.9	592.0	270.0	181.0					

Source: Adapted from Chutima (2005).

Table 2. Major Respective Exports of Thailand and Australia to Each Other in 2004

Exports of Thailand to Australia	Value(USD million)	Share (%)	**Exports of Australia to Thailand**	Value(USD million)	Share (%)
1. Motor vehicles, components and parts	752.0	30.47	1. Minerals, ores and other metals	536.6	24.41
2. Air conditioners and components	230.7	9.35	2. Gemstones, silver and gold	500.2	22.75
3. Frozen and processed seafood	122.6	4.97	3. Iron, steel and steel products	212.6	9.67
4. Iron, steel and steel products	103.3	4.19	4. Crude oil	187.4	8.53
5. Gems and jewellery	95.0	3.85	5. Yarn and fiber	161.3	7.34
6. Crude oil	79.6	3.23	6. Crops and crop products	100.6	4.58
7. Plastic products	72.6	2.94	7. Animals and animal products	71.6	3.26
8. Plastic pellets	58.6	2.37	8. Chemicals	69.2	3.15
9. Computers, components and parts	56.4	2.29	9. Machineries and components	59.9	2.71
10. Rubber products	51.5	2.09	10. Milk and milk products	50.8	2.31

Source: Adapted from Chutima (2005)

Table 3: Recent Trade between Thailand and Australia

	(Jan.-Oct. 04)		(Jan.-Oct. 05)		
	Value (USD million)	Share (%)	Value (USD million)	Share (%)	% change
Exports of Thailand to Australia					
1. Motor vehicles, components and parts	637.5	31.25	1081.7	41.00	69.69
2. Air conditioners and components	171.9	8.43	164.4	6.23	-4.36
3. Frozen and processed seafood	101.2	4.96	117.8	4.47	16.40
4. Iron, steel and steel products	81.8	4.01	164.4	6.23	100.98
5. Gems and jewellery	78.9	3.87	45.8	1.74	-41.95
6. Crude oil	79.6	3.90	51.6	1.96	-35.18
7. Plastic products	58.3	2.86	65.5	2.48	12.35
8. Plastic pellets	46.6	2.28	47.9	1.82	2.79
9. Computers, components and parts	42.5	2.08	71.1	2.70	67.29
10. Rubber products	43.6	2.14	47.3	1.79	8.49
Exports of Australia to Thailand					
1. Minerals, ores and other metals	436.8	25.55	631.0	22.38	44.46
2. Gemstones, silver and gold	335.9	19.65	848.5	30.10	152.60
3. Iron, steel and steel products	168.9	9.88	179.4	6.36	6.22
4. Crude oil	116.8	6.83	473.0	16.78	304.97
5. Yarn and fiber	146.4	8.56	131.8	4.68	-9.97
6. Crops and crop products	90.1	5.27	123.9	4.40	37.51
7. Animals and animal products	58.7	3.43	47.8	1.70	-18.57
8. Chemicals	60.6	3.54	50.3	1.78	-17.00
9. Machineries and components	51.9	3.04	55.8	1.98	7.51
10. Milk and milk products	39.8	2.33	48.9	1.73	22.86

Source: Adapted from Chutima (2005).

Table 4: Trading Items with Projected Gains to Thailand

Product Items	Original Tariff	TAFTA Tariff	2004 Value of Exports to Australia (USD million)	Jan.-Oct. 2004 Value of Exports to Australia (USD million)	Jan.-Oct. 2005 Value of Exports to Australia (USD million)
Fresh and Dried Fruits	0-5%	0%	5.81	3.54	4.03
Canned Tuna	5%	2.5%; 0% (2007)	75.30	63.11	75.34
Canned Pineapple and Juice	5%	0%	4.40	3.58	4.45
Prepared Food	0-5%	0%	16.90	13.65	14.59
Pick-Up Trucks	0.50%	0%	256.73	218.25	286.93
Small Passenger Cars	0-15%	0%	86.50	81.14	204.09
Electrical Appliances	0-10%	0%; 0% (2010)	282.82	213.46	217.28
Chemicals and Plastics	0-10%	1/2 immediately; 0% (2008, 2010, 2015)	125.87	105.53	120.11
Steel and Steel Products	0-10%	0% (2010)	104.50	83.23	165.49
Textiles and Apparels	0-25%	0% (2010, 2015)	39.60	37.55	37.51
Gems and Jewellery	0-5%	0%	95.16	78.88	45.47
Papers	0-5%	0%	31.70	25.33	37.94
Automobile Tyres	0-10%	0%; 0% (2010)	24.62	20.80	23.38
Leather Products	0-25%	0%; 0% (2010, 2015)	7.79	6.48	5.00
Total Export Value			1,157.79	954.53	1,241.61

Source: Adapted from Chutima(2005)

Table 5: Trading Items with Projected Gains to Australia

Product Items	Original Tariff	TAFTA Tariff	2004 Value of Imports from Australia (USD million)	Jan.-Oct. 2004 Value of Imports from Australia (USD million)	Jan.-Oct. 2005 Value of Imports from Australia (USD million)
Grains	0-10%	0%; 0% (2010)	75.60	68.92	88.06
Fuels	0-10%	0%; 0% (2010)	194.82	123.34	479.76
Copper Cathodes	0-10%	0%; 0% (2010)	147.26	120.57	184.48
Milk and Milk Products	0-25%	0% (2015, 2025)	37.00	29.11	38.92
Butter	33%	0%(2025)	13.70	11.00	10.41
Plastics	1-30%	0%; 0% (2007-2010)	15.10	13.87	13.06
Beef	31-51%	40% (2005); 0% (2020)	2.40	1.88	2.14
Large Passenger Cars	80%	0%; 0% (2010)	1.00	0.48	0.68
Animal Feeds	9.1%	0% (2010)	7.30	5.57	7.16
Zinc	5-20%	0%; 0% (2007-2010)	6.61	5.93	13.05
Wine	50-60%	40%; 0% (2020)	3.30	2.38	3.19
Iron and Steel	0-20%	0% and various to 2015	222.72	178.85	193.68
Gold	0%	0%	502.40	334.79	836.00
Total Import Value			1,229.31	896.69	1,870.59

Source: Adapted from Chutima (2005).

ANNEX 1: SUMMARY OF THE ASSESSMENT OF BILATERAL THAILAND-AUSTRALIA FREE TRADE AGREEMENT (TAFTA), BY THE CHULALONGKORN UNIVERSITY STUDY TEAM

This joint scoping study assesses the impact of a bilateral free trade agreement between Australia and Thailand. It also addresses possibilities for closer cooperation in a number of other areas affecting their mutual economic relationship.

The overall conclusion of the study is that a free trade agreement would bring significant economic benefits to both countries. The results from the Chula Economic Model suggest that such an agreement would boost Australia's GDP by US$6.6 billion and Thailand's GDP by US$25.2 billion.[5] Trade and investment between Australia and Thailand would expand substantially. A free trade agreement could also provide a framework for further cooperation on a wide range of issues, ranging from e-commerce to competition policy. The gains from all of these changes would clearly outweigh any adjustment costs which may be incurred.

A free trade agreement would build on a relationship between the two countries which is already close. Bilateral trade in goods is expected around US$2.6 billion per year. Thailand and Australia have already cooperated closely in the World Trade Organization (WTO), Asia Pacific Economic Cooperation (APEC) and the AFTA-CER arrangement which links Australia, New Zealand and ASEAN economies. They have worked together closely on issues such as regional security, for example through close diplomatic and military cooperation on East Timor. There are strong people-to-people links and close educational ties.

Although both countries have undergone trade liberalisation over the past decade, there are still important impediments to trade and investment. Tariff barriers are significant in some sectors, for example, for passenger cars, textile products, and footwear for Australia, and motor vehicles and a range of agricultural and manufacturing products for Thailand. There are also significant barriers to services trade. Investment in both directions is low, with Australian investment in Thailand only a fraction of its investment in some other East Asian economies.

Under an FTA, Australian exports to Thailand which could be expected to increase would include dairy and other agricultural products, pharmaceuticals, aluminum and large passenger cars and components. Thailand would have good export expansion prospects in areas such as small motor vehicles (both passenger and commercial),

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[5] In net present value terms, over 20 years. Assumes immediate implementation.

plastic products, iron and steel products, pulp and paper and other agricultural products. The gains from liberalising the services sector are also likely to be significant. Australian firms would stand to benefit from being able to operate more freely in the Thai market – areas of particular potential could include banking and professional services. For Thailand, there would be an appreciable impetus to investment, growth and competitiveness from a more open services sector. In banking, stronger representation from foreign firms appears to be already strengthening this aspect of the Thai economy, with improvements in such areas as accounting, auditing, customer service and risk management. These gains would develop further under the more open access arrangements which could be part of an FTA with Australia. There would be similar benefits in areas like insurance (where Thai firms would gain added access to capital, management expertise and technology) and professional services.

An FTA would also give each country access to cheaper inputs and expertise, thus helping each to penetrate third markets.

A free trade agreement could, depending on the provisions it contained, lead to an increase in foreign direct investment into both countries, for example, if restrictions which currently exist on foreign investment were reduced or if the FTA made joint ventures between Australian and Thai firms easier to develop. In addition to any stimulus to bilateral investment, an FTA could stimulate the interest of investors from third countries, who would see increased opportunities flowing from the creation of a larger market. Also, greater efficiencies in the Thai services sector noted above should act as a stimulus to further foreign investment.

The economic modeling carried out by an independent consultant (using the APG-Cubed Model) suggests that an FTA would lead to increases in real consumption of US$4.9 billion for Australia and US$14.3 billion for Thailand.[6] GDP gains, as mentioned earlier, would be US$6.6 billion for Australia and $US25.2 billion for Thailand. These are conservative estimates, which do not take into account a number of potential gains (for example, the gains from greater cooperation in areas like standards and conformance and e-commerce). Output in each of the six sectors covered by the model – energy, mining, agriculture, durable manufacturing, non-durable manufacturing and services – is expected to expand under an FTA. Importantly, the gains to the free trade area would be bigger the faster liberalisation proceeds, even after taking into account adjustment costs. Liberalisation “overnight” would increase the gains to Thailand by almost US$10 billion compared with the alternative of liberalisation over 5 years for Australia and 10 years for Thailand.

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[6] In net present value terms, over 20 years.

Case studies on particular sectors confirm substantial gains from an FTA. In agriculture, freeing up trade – mainly through lower tariffs – would bring substantial improvements in market access for Australian exporters. Thailand would gain improved access to a market of 19 million consumers with a disposable income equivalent to the highest strata of Thai food consumers. Thai consumers would benefit from cheaper food, while the Thai food processing industry would gain cheaper inputs (which would lead to improved competitiveness and increased exports). Australian investment in Thai agriculture could increase.

In the automobile sector, gains would be expected from closer integration of the Australian and Thai markets. The complementary nature of the two vehicle industries (with Thailand focusing on small cars and light commercial vehicles and Australia on larger cars) would encourage closer integration, leading to significant economies of scale. There would also be a positive impact on component manufacturers in both countries, with Thailand expected to increase its share of the Australian market in existing product lines such as tyres, radio broadcast receivers and lighting/signaling equipment, and to develop new business in other areas. Australian suppliers of products such as engines, transmissions, brakes, mirrors, lighting equipment, wheels and seat belts would have greater potential in the Thai market. For both motor vehicles and components, there would be greater two-way flows of investment, as well as increased investment from third countries.

In textiles and clothing, a free trade agreement would provide new opportunities for Thai exports to Australia. This would intensify business links between Australian clothing wholesalers and retailers and Thai textile and clothing makers, and would provide new opportunities for growth in Thailand's clothing exports. While the gains to Australia would be smaller than for Thailand, an FTA would strengthen demand for Australian raw products such as wool and cotton, and provide greater access in the Thai market for niche, lifestyle products (such as swimwear) as well as more general exports like carpets. It could also provide Australian industry with new opportunities for supplying related services (such as fashion design) to the Thai market.

In education and tourism, there are already strong links between Australia and Thailand, with Australia one of the main destinations for Thai students. Both countries would benefit from an intensification of these links. An FTA could encourage Australian educational institutions to develop further their presence in Thailand, including by removing impediments to establishing and operating there. In tourism, it would provide a framework for increasing awareness of both countries as tourism destinations, promoting two-way movement of tourists and addressing key challenges facing tourism over the

decade. In health, there could be possibilities for expanded trade in services provided by health-related service providers such as nurses, physiotherapists and para-medical personnel.

On expected tougher competition, the study found that the adjustment costs associated with an FTA are likely to be modest, given that the value of international trade between the two countries is only around 2 per cent of the total international trade of each and that the two economies are relatively complementary and have different specialisations. In agriculture, for example, differing specialisations are illustrated by grains (rice versus wheat), seafood (processed versus fresh) and horticulture (tropical versus temperate). It is possible that the adjustment costs, while small, would be borne more heavily by Thailand than Australia.

The precise impact of a free trade agreement on merchandise trade flows would depend on rules of origin implemented as part of the agreement. Thailand already has in place a rules of origin regime though its arrangement with the ASEAN Free Trade Area, while Australia applies a regime in its trade with New Zealand under the Closer Economic Relations Trade Agreement (CER). The content of rules of origin would need to be addressed in FTA negotiations.

A free trade agreement would provide a framework in which to promote cooperation on other issues which can have an impact on the economic relationship. For example, differing standards and procedures for assessing conformity to them can be significant obstacles to trade. It would be possible for Australia and Thailand to undertake, within the framework of an FTA, further joint efforts towards an objective of harmonisation or equivalence of standards, as well as strengthening mutual recognition of procedures for assessing conformity to them.

Electronic commerce (including business-to-business and business-to-consumer) is likely to assume greater importance over the next decade. Australia and Thailand could work within the framework of an FTA to develop and apply core principles which would minimise the regulatory burden on electronic commerce and allow industry-led development of it, with the aim of allowing Internet-based trade to expand. Technology transfer is another issue where there would be advantages from closer cooperation and an FTA could act as a catalyst for this.

Other issues where there would be benefits from greater cooperation include competition policy, anti-dumping, quarantine, government procurement, intellectual property, the movement of people, cooperation in the finance sector, transportation, including air services, and joint ventures. In many of these areas, there is already a high level of cooperation.

Among these areas there are two – quarantine and anti-dumping – which have caused difficulties in the bilateral trade relationship. On quarantine, the conservative measures Australia has adopted affect a number of Thailand's agricultural exports. With regard to anti-dumping, Australia's application of anti-dumping measures against products believed dumped, has led to a loss of market share by Thailand. To strengthen market perceptions that members are willing to cooperate in all trade issues, bilateral mechanisms and efforts to resolve these concerns could be addressed in any FTA negotiations.

The study concludes that, in light of the potential benefits noted above, the Governments of Thailand and Australia should give close consideration to entering into negotiations to establish an FTA. Australia and Thailand are at different stages of economic development, would bear different adjustment costs and gain different benefits from an FTA – all these factors should be taken into account in any negotiations. The study also suggests that this FTA should be comprehensive and underpin both countries' support for the WTO multilateral trading system. It should also be consistent with APEC's goals and principles (and specifically the Bogor goal of free and open trade and investment for industrialised economies by 2010 and developing economies by 2020). The more comprehensive an FTA, the greater the gains that can be expected from it.

The study also recommends that this FTA addresses a range of issues extending beyond trade and investment liberalisation in order to maximise the gains from integration. These include standards and conformance, quarantine procedures, anti-dumping, e-commerce, competition policy, government procurement, intellectual property, people movement, joint ventures, transport and technology transfer.

Source: Adapted from the Executive Summary of the Joint Scoping Study of the assessment of the bilateral free trade agreement between Thailand and Australia by the Chulalongkorn University Study Team, Faculty of Economics, Chulalongkorn University, June 2004, available at <http://www.thaifta.com/study_au.html>

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